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FISCAL IMPACT STATEMENT

LS 6003

BILL NUMBER: HB 1384

NOTE PREPARED: Nov 17, 2008

BILL AMENDED:

SUBJECT: Inheritance Tax Exemption.

FIRST AUTHOR: Rep. Pearson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill increases the Inheritance Tax exemption for Class A transferees from \$100,000 to \$200,000.

Effective Date: July 1, 2009.

Summary of Net State Impact: This bill will decrease Indiana Inheritance Tax revenues beginning in FY 2011. The bill is expected to increase state General Fund expenditures on county Inheritance Tax replacement. The net state impact of the bill is summarized in the table below.

	FY 2011	FY 2012 and after
Inheritance Tax	(\$16.4 M - \$19.6 M)	(\$16.4 M - \$19.6 M)
Additional County Replacement Expenditures	0	(\$0.09 M - \$0.12 M)
Net Increase (Decrease)	(\$16.4 M - \$19.6 M)	(\$16.5 M - 19.7 M)

Explanation of State Expenditures: *County Inheritance Tax Replacement* - This bill could potentially increase expenditures from the state General Fund for county Inheritance Tax replacement by approximately \$86,000 to \$118,000 beginning in FY 2012. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.) Replacement funding may vary depending on how much each county's base revenue differs from the amount guaranteed by current statute.

Explanation of State Revenues: Summary- This bill is expected to decrease Inheritance Tax revenue by approximately \$16.4 M to \$19.6 M annually beginning in FY 2011.

Background Information- This bill would increase the current exemption for Class A transferees from \$100,000 to \$200,000. Class A transferees include parents, grandparents, children, stepchildren, and grandchildren. This increase in the exemption will be effective July 2009 and will apply to any decedent whose death occurs after June 30, 2009. The Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5 percent early payment discount). The initial fiscal impact of increasing the exemption would occur in FY 2011.

The estimated fiscal impact of the exemption increase is based on the Office of Fiscal and Management Analysis (OFMA) Inheritance Tax database and the Revenue Technical Committee's FY 2009 forecast (published December 13, 2007). The forecast estimates FY 2009 Inheritance Tax at \$147.5 M. The estimated revenue loss assumes that Inheritance Tax revenues would remain relatively constant after FY 2009 absent the increased exemption. The Inheritance Tax database is comprised of about 500,000 records of transferees receiving assets from a decedent who died between July 1, 1997, and December 31, 2007. Annual sample totals suggest that Class A beneficiaries account for about 44.7% of annual Inheritance Tax revenue (about \$65.9 M of the forecast amount). About 99.1% of total Inheritance Tax collections are from Indiana residents. Since counties retain 8% of resident Inheritance Tax, annual county collections from Class A beneficiaries are estimated to total about \$5.7 M. Simulations with the sample returns suggest that the exemption increase could reduce revenue from Class A beneficiaries by about 25.0% to 29.7%.

Explanation of Local Expenditures:

Explanation of Local Revenues: Summary - The increase in the Class A exemption could potentially result in the net impact to counties as summarized in the table below.

	FY 2011	FY 2012 and after
Inheritance Tax	(\$1.4 M - \$1.7 M)	(\$1.4 M - \$1.7 M)
Additional County Replacement Expenditures	0	(\$0.09 M - \$0.12 M)
Net Increase (Decrease)	(\$1.4 M - \$1.7 M)	(\$1.3 M - 1.6 M)

Background Information - Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents, and are guaranteed a statutorily determined amount from the Inheritance Tax under P.L.254-1997. This legislation increased the Class A exemption to \$100,000 effective July 1, 1997, and required the state to annually transfer money from the state General Fund to counties to replace county Inheritance Tax revenue lost due to the exemption increase. The replacement provision guarantees that each county receive an amount of Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997, excluding the highest year and lowest year. The total annual guarantee to counties is approximately \$7.4 M, with replacement payments averaging about \$208,000 since FY 2000. The bill is estimated to reduce Inheritance Tax revenue to counties by about \$1.4 M to \$1.7 M annually beginning in FY 2011. However, the reductions in county Inheritance Tax are expected to increase additional Inheritance Tax replacement payments from the state General Fund totaling about \$86,000 to \$118,000

annually beginning in FY 2012. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.)

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: *State Revenue Forecast* (December 13, 2007); OFMA Inheritance Tax database.

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